

REPORT FOLLOW-UP

AGENCY: DEPARTMENT OF ADMINISTRATION

On April 4, 2005, the Legislative Services Office released a *Management Report on Financial Procedures* for the Department of Administration for fiscal years 2002, 2003, and 2004. The Department was contacted on June 22, 2005, and this follow-up report addresses how it has responded to the four findings and recommendations contained in that report.

STATUS OF RECOMMENDATIONS:

FINDING #1 – The Idaho Special Indemnity Fund (ISIF) made no documented effort to collect assessments and penalties, totaling \$365,000 for the past three assessment years. The ISIF, also called the "Second Injury Fund," is designed to encourage employers to hire impaired workers. The ISIF is funded by an annual assessment and interest earnings. The ISIF provides an annual assessment to the Idaho Industrial Commission and the Industrial Commission bills companies that provide workers compensation insurance for their portion of the ISIF assessment.

The ISIF, by agreement with the Industrial Commission, is responsible for collecting past-due assessments and penalties. The ISIF did not follow up on past-due assessments and penalties, and could not explain why assessment balances and penalties went unresolved. Making no effort to follow up on past-due amounts may result in insurers foregoing payment and the ISIF being subsidized by those insurers who pay the assessment.

We recommended that the ISIF monitor and collect past-due assessments and penalties, and inform the Industrial Commission about account balances so the Industrial Commission can update its records.

AUDIT FOLLOW-UP – The ISIF is now monitoring and collecting assessments in a timely manner. Assessment balances that could not be collected were written off, and the Industrial Commission records were updated. Better supervisory review and monitoring now occurs to ensure that assessment balances are collected and resolved.

STATUS – CLOSED

FINDING #2 – The Division of Purchasing does not adequately monitor vendors to ensure that all required fees are remitted. The majority of the Division's revenue (about \$600,000) comes from administrative fees collected by vendors. The vendors collect the fees from State agencies when they sell products to the agencies under certain purchasing contracts. Vendors are required to remit the fees on a quarterly basis to the Division of Purchasing. Adequate monitoring is not completed to ensure that vendors are properly collecting fees or remitting all the fees they do collect.

The Division was unable to provide a list of contracts containing the administrative fee clause, without separately reviewing each contract. Without such a list, it is difficult to monitor vendors to determine if fees are correctly remitted. We estimate that only 40% of the vendors remitted fees for each quarter in 2004. Also, some fees were incorrectly charged on non-contract purchases.

We recommended that the Division consider: (1) keeping a list of contracts that include an administrative fee clause; (2) developing a remittance form for vendors to complete and submit each quarter; (3) comparing the forms submitted to the list of administrative fee contracts to ensure vendors submit a form; (4) establishing dates by which the forms and remittances should be submitted; and (5) testing (sampling) vendor remittances periodically to ensure accuracy.

AUDIT FOLLOW UP – The Department is developing a contract management system that will enable better monitoring of administrative fee remittances, as well as providing for necessary reconciliations, comparisons, and testing of vendor remittances.

STATUS – IN-PROCESS

FINDING #3 -- The State Record Center's billing and accounting system does not provide accurate billing and financial information and, under current procedures and policies, additional space will continually be needed to store the 300 boxes of records that are added each month. The State Record Center provides record management services to State agencies. It stores agency records in boxes, computer backup media, and microfilm. The Record Center also manages the physical movement of these records to and from State agencies and bills the agencies for its services.

The billing system is cumbersome and requires multiple entries. This billing system, other manually intensive accounting processes, and inadequate staff training have caused billing and management reports to be incorrect and incomplete.

The Record Center is storing boxes of records that could be destroyed, converted to computer backup media or microfilm, or transferred to the State Archives. At its current rate, the Record Center is receiving an additional 300 boxes for storage each month. While storage requirements may grow over time, the requirements could be reduced if the State's retention policies and procedures were modified.

We recommended that the billing system be updated, and that Record Center staff be trained in its use. We also recommended that the Department consider various ways to reduce the amount of records it is storing and, if needed, modify record retention procedures and policies accordingly.

AUDIT FOLLOW UP – The Department is developing a billing and inventory system that will assist Record Center management with billing, reviews, and reconciliations. The Department is also reviewing current retention procedures and policies.

STATUS – IN-PROCESS

FINDING #4 – Some accounting procedures, documentation, and controls are inadequate to ensure accurate information. The Department is a large, complex entity with much of its accounting completed by program personnel. The complexity and decentralization of accounting responsibilities require good procedures and controls to provide accurate information and ensure that assets are not misappropriated. Most of the errors and control weaknesses we found were not material, but should be addressed by the Department to ensure good controls and accurate information in the future. We found transactions with inadequate documentation, coding errors, calculation errors, and receipt processing control weaknesses.

We recommended that the Department develop controls and procedures that will help eliminate accounting errors and increase the accuracy of information. Specifically, the Department should: (1) stamp expenditure documentation directly to show it is approved; (2) obtain properly approved documentation before processing sight drafts; (3) require customers to send checks directly to the fiscal section instead of program personnel; (4) make payments promptly; (5) use correct transaction codes to record revenues and expenditures; (6) make necessary corrections to lease/purchase analysis worksheets; and (7) provide needed reconciliations and reviews to ensure that billings are correct.

AUDIT FOLLOW UP – The Department has implemented our recommendations. In addition, customers are being directed to send checks directly to the fiscal section as purchasing contracts are renewed.

STATUS – CLOSED